SUPREME COURT, U.S.
FILED
FEB 14 2003
OFFICE OF THE CLERK

(10)

No. 02-428

IN THE

Supreme Court of the United States

DASTAR CORPORATION,

Petitioner,

v.

TWENTIETH CENTURY FOX FILM CORPORATION,
SFM ENTERTAINMENT LLC, and
NEW LINE HOME VIDEO INC.,

Respondents.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

AMICUS CURIAE BRIEF OF THE AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION IN SUPPORT OF NEITHER PARTY

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29pp

QUESTIONS PRESENTED

1. Does Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), require an independent showing that consumers will likely be confused by a defendant's false designation of origin or false or misleading description or representation of fact?

2. Does Section 35(a) of the Lanham Act, 15 U.S.C. § 1117(a), authorize enhancement of a monetary award solely for deterrent purposes?

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AMICUS CURIAE BRIEF OF THE AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION IN SUPPORT OF NEITHER PARTY

The American Intellectual Property Law Association ("AIPLA") respectfully submits this brief as *amicus curiae* in support of neither party.

INTEREST OF THE *AMICUS CURIAE*[1]

The AIPLA is a national bar association of more than 14,900 members with interests and practices primarily in the areas of patent, trademark, copyright, trade secret, and other areas of intellectual property law. Unlike areas of practice in which separate and distinct plaintiffs' and defendants' bars exist, most intellectual property lawyers represent both intellectual property owners and alleged infringers.

The AIPLA has no interest in any party to this litigation or stake in the outcome in this case, other than its interest in seeking a correct interpretation of the intellectual property laws and related laws of unfair competition.

In accordance with Supreme Court Rule 37.3(a), the AIPLA has obtained written consent to the filing of this brief from the counsel of record for both parties. The letters of consent have been filed with the Clerk of the Court.

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1. In accordance with Supreme Court Rule 37.6, *amicus curiae* states that this brief was not authored, in whole or in part, by counsel to a party, and that no monetary contribution to the preparation or submission of this brief was made by any person or entity other than the *amicus curiae* or its counsel.

SUMMARY OF ARGUMENT

Claims for reverse passing off under Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), require that the plaintiff prove a likelihood of confusion. To the extent the Ninth Circuit holds that "bodily appropriations" of a plaintiff's creative work are proscribed by Section 43(a) without a showing of likelihood of confusion, its analysis is contrary to the plain meaning of the statute. In any case alleging reverse passing off under Section 43(a) – whether the defendant's work is bodily appropriated or merely substantially similar to the plaintiff's – the court should determine: (1) whether the defendant has falsely designated the origin of the work, or made any other false or misleading description or representation of fact; that (2) is likely to cause confusion, mistake, or deceit as to the origin, sponsorship, or approval of the work. Both elements are required to establish a violation of Section 43(a).

Requiring the plaintiff to prove likelihood of confusion under Section 43(a) also eliminates any conflict with the Constitution. Section 43(a) does not have the effect of creating perpetual patents or copyrights because it does not prevent the mere copying and selling of materials in the public domain. Rather, it only proscribes falsely designating or misrepresenting the origin of such materials in a manner likely to cause confusion. Thus, Section 43(a) coexists harmoniously with the patent and copyright laws enacted pursuant to Article I, Section 8, Clause 8 of the Constitution.

Finally, Section 35(a) of the Lanham Act, 15 U.S.C. § 1117(a), requires that enhanced awards of the defendant's profits be compensatory and not a penalty. To the extent the Ninth Circuit holds that profits awards may be enhanced

solely for deterrent purposes, such a holding is again contrary to the plain meaning of the statute. While deterrence may be a factor, an enhanced award under Section 35(a) must serve a compensatory purpose.

ARGUMENT

I. A Reverse Passing Off Claim Under The Lanham Act Requires Proof That Consumers Are Likely To Be Confused.

A. Section 43(a) of the Lanham Act Includes a Cause of Action for Reverse Passing Off.

Section 43(a) prohibits, among other things, a "false designation of origin, false or misleading description of fact, or false or misleading representation of fact" that "is likely to cause confusion, or to cause mistake, or to deceive as to . . . the origin, sponsorship, or approval of [defendant's] goods." 15 U.S.C. § 1125(a)(1)(A). This language plainly covers, for example, a claim in which A takes B's goods and markets them as A's own. This situation is commonly referred to as "reverse passing off." 2 J. Gilson, *Trademark Protection and Practice* § 7:02[5][b] (2002). The express language of Section 43(a) prohibits reverse passing off, *provided that confusion is likely*, because A falsely designates B's goods as A's own, creating a false designation of the origin of the goods.

Every circuit, with the possible exception of the First Circuit, prohibits reverse passing off under Section 43(a). Lori H. Freedman, *Reverse Passing Off: A Great Deal of Confusion*, 83 Trademark Rep. 305, 317 (May-June 1993) (questioning whether the First Circuit would recognize

reverse passing off). Courts in the various circuits have split, however, over what a plaintiff must prove to prevail on a reverse passing off claim involving creative works. The main split is demonstrated by the diverse positions of the Ninth and Second Circuits, which rely on the "bodily appropriation" and "substantial similarity" tests, respectively. *Compare*, *Waldman Publ'g Corp. v. Landoll, Inc.*, 43 F.3d 775, 782 (2d Cir. 1994) *with Twentieth Century Fox Film Corp. v. Entm't Distrib.*, Pet. App. A at 3a-4a (9th Cir. 2002). Some courts from other circuits have expressly adopted either the Ninth or Second Circuit approach, while others have discussed the conflict without following either test. *Compare*, *Dahlen v. Michigan Licensed Beverage Ass'n*, 132 F. Supp. 2d 574, 590 (E.D. Mich. 2001) (following the Second Circuit approach but noting that the Sixth Circuit had not yet decided which standard to use in reverse passing off cases), *and Campbell v. Osmond*, 917 F. Supp. 1574, 1583 (M.D. Fla. 1996) (adopting the Second Circuit test), *with Robinson v. New Line Cinema Corp.*, 42 F. Supp. 2d 578, 597 n.31 (D. Md. 1999) (noting the split between the Second and Ninth Circuits but finding it unnecessary in that case to choose between them), *rev'd w/o op.*, 211 F.3d 1265 (4th Cir. 2000).

Neither the Second nor the Ninth Circuit test, however, properly follows the statutory framework stated in the Lanham Act. The statute requires both a false designation of origin (or false or misleading description or representation of fact) *and* a likelihood of confusion. The Second Circuit at least recognizes that Section 43(a) delineates those two as separate requirements. *Waldman*, 43 F.3d at 780. But to the extent the Second Circuit has implied that a plaintiff could prove likely confusion merely by showing that the works are "substantially similar," the Second Circuit test is flawed. *Id.* at 784 (concurring with the district court that consumers

would likely be confused "even though the Landoll books are 'substantially similar' to but not 'bodily appropriations' of the Waldman books" without analyzing any other indicia of confusion); *Kaplan v. Stock Mkt. Photo Agency, Inc.*, 133 F. Supp. 2d 317, 329-30 n.17 (S.D.N.Y. 2001) ("The Second Circuit . . . has judged likelihood of confusion based on substantial similarity.")

The Ninth Circuit's test is even more flawed. It essentially recognizes as a *prima facie* case of reverse passing off a showing that the defendant bodily appropriated the plaintiff's work, without a separate showing that confusion is likely. "[B]ecause the 'bodily appropriation' test subsumes the 'less demanding 'consumer confusion' standard,'" the Ninth Circuit reasons, a plaintiff need not demonstrate further that the defendant's actions would confuse consumers. *Twentieth Century Fox*, Pet. App. A at 3a-4a. False designation and likelihood of confusion are distinct statutory elements requiring separate analyses. *Waldman*, 43 F.3d at 781 ("Consumer confusion is a separate Lanham Act requirement . . . and does not bear on . . . what makes a designation 'false.'"). When a court such as the Ninth Circuit conflates these two requirements, it effectively ignores the distinction between them.

B. Section 43(a) Requires First that the Plaintiff Prove a False Designation of Origin or False or Misleading Description or Representation of Fact.

The classic reverse passing off case involves A selling B's manufactured product under A's name or mark. In that case, A has falsely designated the origin of its goods; consumers see A's mark on B's product and may, justifiably, assume that A manufactured it. Conversely, if A merely copies

B's product (one in which B can claim no patent, copyright, or trade dress protection) but does not falsely designate its origin (e.g., A marks the product with A's name), no reverse passing off has occurred. These two hypotheticals illustrate two of the more straightforward scenarios demonstrating the reverse passing off doctrine.

A more complicated situation arises when the product is a creative work. *See Waldman*, 43 F.3d at 780 (noting that "[r]everse passing off as applied to a written work involves somewhat different concepts"). In this context, the Second Circuit states that A's work need be only "substantially similar" to B's work to prove a false designation of origin. *Id.* at 783. The Ninth Circuit requires that A "bodily appropriated" B's work. *Twentieth Century Fox*, Pet. App. A at 3a-4a. Neither substantial similarity nor bodily appropriation alone, however, proves a false designation of origin. False designations or misleading descriptions or representations of fact could potentially arise in both situations. The proper inquiry under Section 43(a) in either situation should focus on whether defendant's *claimed contribution* to the work is false or misleading.

Why, as a matter of policy, should it be permissible for a second-comer to manufacture and sell an exact duplicate of another's unpatented article using the second-comer's own name as the brand, while Section 43(a) generally prohibits that same second-comer from making and selling an identical (or perhaps merely even a substantially similar) copy of another's uncopyrighted book using the second-comer's name as the author? The critical distinction is what the defendant says (or implies) to the public when selling the product. Placing your brand on a product you manufacture is a truthful

designation of origin; claiming authorship[2] of a book you did not write is false.[3] It is this false designation of origin – not the mere act of copying – that crosses the Section 43(a) line.

C. Section 43(a) Also Requires the Plaintiff to Prove that Consumers Will Likely be Confused.

The Ninth Circuit first addressed a reverse passing off claim involving a creative work in 1981 in *Smith v. Montoro*, 648 F.2d 602 (9th Cir. 1981). At that time, Section 43(a) proscribed "a false designation of origin, or any false description or representation" used in connection with goods or services, but did not expressly require a likelihood of confusion.[4] Finding that the defendant's alleged conduct in

2. This Court has "defined 'author,' in a constitutional sense, to mean 'he to whom anything owes its origin; originator; maker.'" *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 346 (1991) (quoting *Burrow-Giles Lithographic Co. v. Sarony*, 111 U.S. 53, 58 (1886)). To establish oneself as an "author," he or she must "prove 'the existence of those facts of originality, of intellectual production, of thought, and conception.'" *Id.* at 346-47 (quoting *Burrow-Giles*, 111 U.S. at 59-60).

3. *E.g.*, *Johnson v. Jones*, 149 F.3d 494, 503 (6th Cir. 1998) ("[D]efendant has taken the plaintiff's product and has represented it to be his own work. It is difficult to imagine how a designation of origin of a product could be more false, or could be more likely to cause confusion or mistake as to the actual origin of the product.").

4. Before Congress amended the statute in 1989, Section 43(a) stated:

> Any person who shall affix, apply, or annex, or use in connection with any goods or services . . . a false

(Cont'd)

that case (which involved removing the plaintiff's name from the credits in a film he had starred in and replacing it with another actor's name) constituted "express reverse passing off," the court held that plaintiff's claim "appears to fall within the express language of section 43(a)" without specifically addressing whether confusion was likely.[5] *Id.* at 607.

Subsequent Ninth Circuit decisions continued to focus on whether the defendant's conduct fell within the literal language of Section 43(a) and the court's definition of "reverse passing off" without separately addressing likelihood of confusion. Even after Congress in 1989 amended Section 43(a) to expressly require a likelihood of confusion, 15 U.S.C. § 1125(a)(1)(A), the Ninth Circuit continued to quote the old version of the statute. *E.g.*, *Cleary*

(Cont'd)

> designation of origin, or any false description or representation, including words or other symbols tending falsely to describe or represent the same . . . shall be liable to a civil action by any person . . . who believes that he is or is likely to be damaged by the use of such false description or representation.

15 U.S.C. § 1125(a) (as enacted in 1946). Although the pre-1989 version of Section 43(a) did not expressly require that a plaintiff prove likelihood of confusion, many cases interpreted the statute to include such a requirement. Lori H. Freedman, *Reverse Passing Off: A Great Deal of Confusion*, 83 Trademark Rep. 305, 306-16 (May-June 1993) (providing a history of the doctrine).

5. In discussing the policy underlying why reverse passing off is wrongful, the court did, however, explain that "[t]he ultimate purchaser (or viewer) is . . . deprived of knowing the true source of the product and may even be deceived into believing that it comes from a different source." *Smith*, 648 F.2d at 607.

v. News Corp., 30 F.3d 1255, 1259 n.2 (9th Cir. 1994); *Shaw v. Lindheim*, 919 F.2d 1353, 1364 (9th Cir. 1990). Thus, the Ninth Circuit's failure to require a separate showing of likely confusion for a Section 43(a) reverse passing off claim appears to be a vestige of history.

Although two Ninth Circuit decisions involving reverse passing off claims have mentioned likelihood of confusion in passing, those were only in the context of finding that the parties' products were so different that "the likelihood that the two [products] will be confused is minimal." *Summit Machine Tool Mfg. Corp. v. Victor CNC Sys., Inc.*, 7 F.3d 1434, 1439 (9th Cir. 1993); *Shaw*, 919 F.2d. at 1364. Of course, the proper issue in reverse passing off cases is not the likelihood that the parties' *products* will be confused, but the likelihood that consumers will be confused as to the *origin* of the defendant's product. 15 U.S.C. § 1125(a)(1)(A).

This Court has recognized likelihood of confusion as an essential element under Section 43(a). Whether the violation is called "infringement, unfair competition or false designation of origin, the test is identical – is there a 'likelihood of confusion?'" *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 780 (1992) (Scalia, J., concurring) (quoting *New West Corp. v. NYM Co. of Calif., Inc.*, 595 F.2d 1194, 1201 (9th Cir. 1979)) (internal quotation marks omitted); *see also id.* at 769 (stating that "[i]t is, of course, undisputed that liability under § 43(a) requires proof of the likelihood of confusion"). Indeed, "likelihood of confusion is the essence of an unfair competition claim." *Johnson*, 149 F.3d at 502.

Courts typically consider a variety of factors when assessing likelihood of confusion in the traditional trademark infringement context.[6] Some of those factors may not generally be applicable in a reverse passing off context. For example, factors relating to the similarity and distinctiveness of the parties' marks would not seem applicable since it is not the marks themselves that are at issue in a reverse passing off case. *Lipscher v. LRP Publ'ns, Inc.*, 266 F.3d 1305, 1313-14 (11th Cir. 2001); *Johnson*, 149 F.3d at 503. On the other hand, certain other factors, such as the defendant's intent, actual confusion, similarity of marketing channels, sophistication of purchasers, and similarity of products, may be highly relevant in many reverse passing off cases.

Of course, the most critical "factor" in a reverse passing off case will likely be the specific representations the defendant has made about the origin of the product it is selling, and whether such representations are false or misleading. This is the essence of a reverse passing off case. Courts should closely analyze what the defendant has said or implied about the product's origin, and whether consumers would likely be confused, misled, or deceived by those statements.[7]

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6. 4 J. T. McCarthy, *McCarthy on Trademarks and Unfair Competition* § 23:19 (4th ed. 2001) ("*McCarthy*") (reciting the factors from the Restatement (Third) of Unfair Competition §§ 20-23 (1995)). These factors do not represent an exhaustive list nor should courts apply them in a mechanical fashion. *Id.* §§ 24:29-24:30.

7. For example, in this case, Dastar made the following statements at the beginning of each video: "DASTAR CORP presents an ENTERTAINMENT DISTRIBUTING production," and, at the end of the video, identified three Dastar employees as the "producers."

(Cont'd)

D. Properly Construed, There Is No Conflict Between Section 43(a) Protection Against Reverse Passing Off and the Constitution.

In seeking certiorari, Petitioner argued that this case raises the same constitutional issue left open in this Court's decision in *TrafFix Devices, Inc. v. Marketing Displays, Inc.*, 532 U.S. 23, 35 (2001), namely whether the Lanham Act may extend intellectual property protection beyond the limited term conveyed under the patent and copyright clause of the Constitution. *See* Petitioner's Petition for a Writ of Certiorari at 4 and Reply Brief at 1. However, properly construed, Section 43(a) raises no such constitutional conflict. Because claims under Section 43(a) (including reverse passing off claims) require the plaintiff to prove a likelihood of confusion, they do not conflict with the Constitution or interfere with the public's right to copy unpatented and uncopyrighted materials.

1. The public has a right to copy materials in the public domain.

The public has a right to copy materials that fall into the public domain following expiration of patent or copyright protection. *E.g.*, *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 152 (1989) ("We have long held that after the expiration of a federal patent, the subject matter of the patent passes to the free use of the public as a matter of federal law"); *Bailey v. Logan Square Typographers, Inc.*, 441 F.2d 47, 51

(Cont'd)

AIPLA takes no position on whether these statements or any other actions by Dastar constitute a false designation of origin or false or misleading description or representation of fact, nor whether they are likely to cause confusion as to the origin, sponsorship, or approval of Dastar's videos. However, these are the issues that should be considered on remand.

(7th Cir. 1971) (uncopyrighted published matter "may be freely copied as a matter of federal right"), quoted with approval in *Bonito Boats*, 489 U.S. at 164.[8] The right to copy public domain materials is grounded in the Constitution. *Bailey*, 441 F.2d at 50.

Article I, Section 8, Clause 8 authorizes Congress "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." This provision of the Constitution

> contains both a grant of power and certain limitations upon the exercise of that power. Congress may not create patent monopolies of unlimited duration,[9] nor may it "authorize the issuance of patents whose effects are to remove existent knowledge from the public domain, or to restrict free access to materials already available."

Bonito Boats, 489 U.S. at 146 (quoting *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1, 6 (1966)). Thus, Congress cannot usurp the public's right to copy public domain materials.

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8. *Accord*; *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 237 (1964); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 231 (1964); *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111, 119-22 (1938); *Singer Mfg. Co. v. June Mfg. Co.*, 163 U.S. 169, 185 (1896) (all noting that, because unpatented articles are or become part of the public domain, the public has a right to copy and use those articles without incurring liability under the federal patent laws).

9. *Cf. Eldred v. Ashcroft*, 123 S. Ct. 769, 783-84 (2003) (upholding constitutionality of the Copyright Term Extension Act because it did not create "a regime of perpetual copyrights").

2. The public, however, does not have a right to market public domain materials in a confusing, misleading or deceptive manner.

Counterbalancing the public's right to copy public domain materials are laws prohibiting unfair competition. Although members of the public are free to copy articles in the public domain, they may not market those articles in a manner likely to confuse or deceive consumers as to the origin of the article. *Kellogg*, 305 U.S. at 120 (upon patent expiration, defendant "was free to use the [previously patented] form, subject only to the obligation to identify its product lest it be mistaken for that of the plaintiff"). Marketers are obligated to use "reasonable means to prevent confusion." *Id.* at 121.

3. Because Section 43(a) requires a likelihood of confusion, it does not conflict with the Constitution.

As this Court stated in *Bonito Boats*, unfair competition laws have "coexisted harmoniously with federal patent protection for almost 200 years. . . ." 489 U.S. at 166. These regimes are based on very different policies and address fundamentally different concerns. It contrast to patent and copyright laws,

> The law of unfair competition has its roots in the common-law tort of deceit: its general concern is with protecting *consumers* from confusion as to source. . . . [T]he focus is on the protection of consumers, not the protection of producers as an incentive to product innovation.

Id. at 157. Unfair competition laws do not interfere with the public's right to copy because "[t]he 'protection' granted a

particular design under the law of unfair competition is . . . limited to one context where consumer confusion is likely to result; the design 'idea' itself may be freely exploited in all other contexts." *Id.* at 158.

This Court has specifically recognized Section 43(a) as, in essence, a federal unfair competition statute that is "consistent with the balance struck by the patent laws." *Id.* at 166.[10] Section 43(a) does not proscribe the mere acts of copying and selling articles, but rather only doing so in a way likely to confuse consumers. For example, in the context of reverse passing off claims involving uncopyrighted creative works (such as in this case), Section 43(a) does not prohibit copying and selling such works, but does prohibit falsely claiming authorship or misrepresenting other facts likely to confuse consumers about the origin, sponsorship, or approval of the work.

For this reason, reverse passing off claims under Section 43(a), properly construed, do not run afoul of the concern identified in *TrafFix*. Art. I, § 8, cl. 8 does not "of its own force, prohibit[] the holder of an expired utility patent [or copyright] from claiming [reverse passing off] protection," *TrafFix*, 532 U.S. at 35, because that holder is not seeking to prevent the mere act of copying or selling an article. Rather, the holder seeks only to prevent competitors from marketing the article in a deceptive manner. Thus, reverse passing off protection under Section 43(a) is not "the practical equivalent of an expired utility patent [or copyright]." *Id.*; *see also Waldman*, 43 F.3d at 781 (noting that "the Copyright Act and the Lanham Act address

10. As Professor McCarthy notes, however, Section 43(a) is not as broad as the overall law of "unfair competition" since it covers only certain forms of unfair competition. *McCarthy* §§ 27:7-27:9.

different harms" and that an appropriate injunction will prohibit only the copying of a public-domain work with a false representation as to the source, not all copying).

II. A Court Applying Section 35(a) Of The Lanham Act May Not Award Twice The Defendant's Profits For Purely Deterrent Purposes.

In its conclusions of law, the district court stated that Section 35(a) of the Lanham Act, 15 U.S.C. § 1117(a),

> confers authority on the Court to treble or otherwise increase the award of defendants' profits *in order to deter future infringing conduct*. An award of double damages is particularly appropriate here, because, as described above, defendants' infringement was willful. Thus, plaintiffs are entitled to double defendants' profits.

Pet. App. B at 27a, 21 (emphasis added.) On appeal the Ninth Circuit stated,

> The district court did not abuse discretion by doubling the profit award. . . . The court considered the circumstances of the case, as required by section 1117(a), and doubled the award *in order to deter future infringing conduct* by Dastar – a permissible ground under the Lanham Act.

Pet. App. A at 4a (emphasis added.)

These are incorrect statements of law. This issue should be remanded with instructions: (1) that a court may not double or otherwise enhance an award of defendant's profits under Section 35(a) *purely* for deterrent purposes; and (2) to

determine whether the district court's doubling of Dastar's profits was purely for deterrence or served a compensatory purpose.

Section 35(a) authorizes the court to enhance an award based on defendant's profits if it finds the amount inadequate, but provides that the sum awarded "shall constitute compensation and not a penalty." 15 U.S.C. § 1117(a). There is a well-founded consensus among courts and commentators that this language represents a limitation on a court's discretion when enhancing a monetary award.[11] *Sands, Taylor & Wood v. Quaker Oats Co.*, 34 F.3d 1340, 1349 (7th Cir. 1994) ("[T]he monetary relief granted by the district court must be great enough to further the statute's goal of discouraging trademark infringement but must not be so large as to constitute a penalty.") (quoting *Otis Clapp & Son, Inc. v. Filmore Vitamin Co.*, 754 F.2d 738, 744 (7th Cir. 1985)); *Jurgens v. McKasy*, 927 F.2d 1552, 1563-1564 (Fed. Cir. 1991) (applying Eighth Circuit law) ("[T]he Eighth Circuit [has] held that this section gives a district court broad discretion to adjust monetary relief . . . 'provided it does not award such relief as a penalty.'") (quoting *Metric & Multistandard Components Corp. v. Metric's, Inc.*, 635 F.2d 710, 715 (8th Cir. 1980); *Taco Cabana Int'l, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113, 1127 (5th Cir. 1991) ("[W]e have suggested that enhancement could, consistent with the 'principles of equity' promoted in section 35, provide proper

11. *But see* Ralph S. Brown, *Civil Remedies for Intellectual Property Invasions: Themes and Variations*, 55 Law & Contemp. Probs. 45, 74-76 (1992) (arguing that the phrase "shall constitute compensation and not a penalty" is not an admonition at all, but rather a declaration "that enhanced damages and profits authorized by Congress are 'not a penalty,' and that courts may 'ignore the clause'").

redress to an otherwise undercompensated plaintiff where imprecise damage calculations fail to do justice."), *aff'd on other grounds*, 505 U.S. 763 (1992).

Some courts have explained that an award may serve a dual purpose of deterrence as well as compensation, and enhancement would be proper under this rationale. *Taco Cabana*, 932 F.2d at 1127; *Getty Petroleum Corp. v. Bartco Petroleum Corp.*, 858 F.2d 103, 113 (2d Cir. 1988) ("So long as its purpose is to compensate a plaintiff for its actual injuries – even though the award is designed to deter wrongful conduct – the Lanham Act remains remedial."); *see also McCarthy* § 30:91 (acknowledging several possible interpretations, including one in which the phrase creates a "green light" for courts to enhance an award to deter willful infringement as long as the increase bears some remedial aspect). Hence, while a court may factor deterrence into enhancing the plaintiff's recovery, it cannot be the *sole* basis for the enhancement. The enhanced award must play some compensatory and/or remedial role as well.

Whether doubling profits is compensatory in nature will depend on the circumstances of the case. Typically, a plaintiff may recover defendant's profits under a theory of unjust enrichment. *Lindy Pen Co. v. Bic Pen Corp.*, 982 F.2d 1400, 1407 (2d Cir. 1993). Alternatively, a plaintiff may claim, as damages, a direct siphoning of sales that it lost because of the defendant's infringement. *Id.* A plaintiff cannot, however, lay any claim to a defendant's sales that never existed or did not result from an infringing use. *Playboy Enters., Inc. v. Baccarat*, 692 F.2d 1274, 1276 (2d Cir. 1982) ("[W]e do not believe that it would be appropriate to award PEI an equity based accounting of profits premised on potentially fictitious sales from which the defendants derived no economic gain.");

Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co., 316 U.S. 203, 206 (1942) ("The Plaintiff of course is not entitled to profits demonstrably not attributable to the unlawful use of his mark."); *Truck Equip. Serv. Co. v. Fruehauf Corp.*, 536 F.2d 1210, 1222 (8th Cir. 1976) (affirming limitation of a profits award to those from states where plaintiff had acquired protectable trademark rights). However, there may be extenuating circumstances that would justify enhancing defendant's profits above 100 percent to serve a compensatory purpose.

The legislative history of the Lanham Act supports the view that Congress meant to require a compensatory aspect of monetary relief in trademark cases. The desire to give courts some, but not unlimited discretion in setting the amount of monetary awards was summarized by ABA drafting committee member Edward Rogers:

> [T]here ought to be somewhere some discretion in the hands of the court under the circumstances of the particular case either to increase or to decrease the recovery; in one case if it is excessive, it ought to be decreased, and if, on the other hand, it is not enough, a reasonable sum in the way of ordinary damages ought to be awarded.

Hearings on H.R. 102, H.R. 5461, and S. 895 Before the Subcommittee on Trademarks of the House Committee on Patents, 77th Cong., 1st Sess. 203-206 (1941).

This and other passages from the legislative history indicate an intent to grant courts discretion to enter judgments that were adequate to fully compensate plaintiff, but not so excessive as to provide a windfall.[12] Certainly a court may enhance a profits award to compensate a plaintiff for harm that cannot be "precisely calculated." *Alpo Petfoods, Inc. v. Ralston Purina Co.*, 997 F.2d 949, 955 (D.C. Cir. 1993). The district court's opinion in this case, however, does not indicate whether the doubling of defendant's profits was meant to compensate the plaintiffs as opposed to merely deterring infringement.

Section 35(a) may also provide for enhancement of defendants' profits for a defendant who hides profits or whose poor business skills prevent the realization of a profit. *Badger Meter Inc. v. Grinnell Corp.*, 13 F.3d 1145, 1157 n.13 (7th Cir. 1994); *Taco Cabana*, 932 F.2d at 1127. But in order to "enter judgment for such sum as the court shall find to be just, according to the circumstances of the case," a court must first "find that the amount of the recovery based on profits is either inadequate or excessive." 15 U.S.C. § 1117(a). The district court did not indicate that it made any such finding in this case.

The award of double defendant's profits in this case should be remanded for reconsideration as to whether the enhancement was purely for deterrence, or rather was needed to compensate the plaintiffs adequately.

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12. *Hearings on H.R. 102, H.R. 5461, and S. 895 Before the Subcommittee on Trademarks of the House Committee on Patents*, 77th Cong., 1st Sess. 203-206 (1941) (statement of Mr. Fenning) ("[T]here certainly should be some limitation on the amount that the man can be required to pay."); *id.* (statement of Mr. Savage) (opining that an award of $5,000,000 was "an excessive judgment").

CONCLUSION

For the foregoing reasons, the Court should remand this case for a determination of: (1) whether Dastar's conduct constitutes a false designation of origin that is likely to cause consumer confusion; and (2) whether awarding double the defendant's profits in this case constitutes compensation to the plaintiffs and not merely a penalty against the defendant.

Respectfully submitted,

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